

BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D. C.

DEPARTMENT OF TRANSPORTATION
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DOCKET SECTION

41239 OST-98-4328-1

Application of

AMERICAN AIRLINES, INC.

under 49 USC 40109 for an exemption
(Chicago-Moscow)

OST-98-4328

APPLICATION OF AMERICAN AIRLINES, INC.
FOR AN EXEMPTION

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August 14, 1998

NOTICE: Answers supporting or opposing this application
are due on August 31, 1998.

BEFORE THE
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WASHINGTON, D. C.

Application of

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APPLICATION OF AMERICAN AIRLINES, INC.
FOR AN EXEMPTION

American Airlines, Inc., under 49 USC 40109, hereby
applies for an exemption authorizing scheduled foreign air
transportation of persons, property, and mail between Chicago,
Illinois and Moscow, Russia.

As shown in the attached exhibits, American proposes
to institute nonstop Chicago-Moscow service on June 1, 1998,
using 204-seat B767-300ER aircraft. So that American may
complete preparations for opening a station in Moscow, and to
facilitate advance marketing and sales, American requests
expedited action on this application.

As the Department explained in Order 97-9-12, Sep-
tember 10, 1997, p. 1:

"Under the Air Transport Agreement between
the United States and the Russian Federation
(Agreement), operations by designated U.S.
carriers are limited to a total of 54 round-
trip frequencies per week for combination
services.1/

"1/ Under the terms of the Agreement, services operated exclusively pursuant to cooperative marketing arrangements, including codeshare arrangements, do not count against the designation limitations. However, cooperative service arrangements between the airlines of either Party and airlines of a third country count for one-half of one frequency for purposes of the frequency limitations. The Annexes to the Agreement expired May 31, 1997. The Annexes continue to be observed on the basis of comity and reciprocity."

The Department has allocated all 54 available weekly frequencies: 3 to Alaska Airlines; 7 to Continental Airlines; 23-1/2 to Delta Air Lines; 8-1/2 to Northwest Airlines; 7 to United Air Lines; and 5 to Baltia Airlines (Order 97-7-33, July 26, 1997; Order 96-10-1, October 1, 1996). By Order 97-9-12, the Department conditionally allocated 1-1/2 additional frequencies to Delta, which would be withdrawn from Baltia's allocation unless Baltia commenced U.S.-Russia service by a certain date. On August 7, 1998, Baltia sought a further extension of its start-up exemption (OST-98-4293).

However, out of the total of 54 allocated weekly frequencies, only 9 are used for services actually operated by U.S. carriers: Alaska operates 2 on a seasonal basis (Anchorage-Siberian Far East), and Delta operates 7 (New York-Moscow). Seventeen and one-half are operated by foreign-flag carriers: Swissair uses 9 for codesharing with Delta, and KLM uses 8-1/2 for codesharing with Northwest. The remainder -- 27-1/2, or

more than 50% of the total -- are dormant. See OAG (Worldwide Ed.), August 1998.

In these circumstances, the Department should promptly grant exemption authority to American to operate between Chicago and Moscow, and should award American 7 weekly frequencies. Six U.S. carriers may be designated for U.S.-Russia services; as the Department noted in Order 97-9-12, services operated exclusively under codeshare arrangements do not count against the designation limitations. Since only Alaska and Delta operate their own U.S.-Russia flights, 4 of the 6 designations are dormant. Moreover, as shown above, 27-1/2 of the 54 weekly frequencies are dormant.

As the Department found in conditionally awarding 1-1/2 additional frequencies to Delta (which would be withdrawn from Baltia), "[t]he limited U.S.-Russia combination frequencies represent valuable operating rights obtained in exchange for valuable route rights for Russian carriers. It is not our policy to permit such rights to remain unused indefinitely, particularly when other carriers have firm plans to use them" (pp. 2-3). See also, e.g., Application for U.S.-Brazil Frequencies, Order 95-3-52, March 27, 1995, p. 4 ("it is not the Department's policy to permit valuable operating rights to remain unused...when another carrier has plans to use them");

U.S.-Lima Combination Service Proceeding (1996), Order 96-1-41, January 29, 1996, p. 6 ("[w]e believe that it is in the public interest to select carriers on a timetable that will allow the selected carrier(s) to enjoy the maximum benefit of these rights as soon as they become available"); U.S.-Germany Third-Country Codeshare Designations and Frequencies, Order 94-9-2, September 1, 1994; Delta, London-Frankfurt Exemption, Order 93-8-11, August 6, 1993, p. 3; U.S.-Brazil All-Cargo Service Case, Order 91-9-12, September 6, 1991, p. 6; 1990 U.S.-Japan Gateways Proceeding, Order 90-1-4, January 4, 1990, pp. 10-11; Untied States-Chile Show-Cause Proceeding, Order 82-8-19, August 7, 1982, p. 4.

In addition, it is well-established that in limited-frequency international markets, direct services operated by U.S. carriers should have priority over services operated by foreign carriers under codeshare arrangements. See, e.g., U.S.-Mexico, Order 97-9-38, September 29, 1997, p. 3; Delta/Variq, Order 94-3-33, April 26, 1994; American/South African Airways, Order 92-10-19, October 9, 1992, p. 5 n. 9.

American's Chicago-Moscow operations will provide substantial benefits to the traveling and shipping public in the large local market, as well as in scores of beyond markets that will have convenient on-line connections via American's Chicago hub. This will be the first U.S. carrier service in

the Chicago-Moscow market, and will provide important inter-gateway competition with U.S. and foreign-flag service operated at other U.S. gateways.

For the foregoing reasons, the Department should promptly grant American an exemption, and award 7 weekly combination frequencies, for service between Chicago and Moscow, which American plans to commence on June 1, 1998.

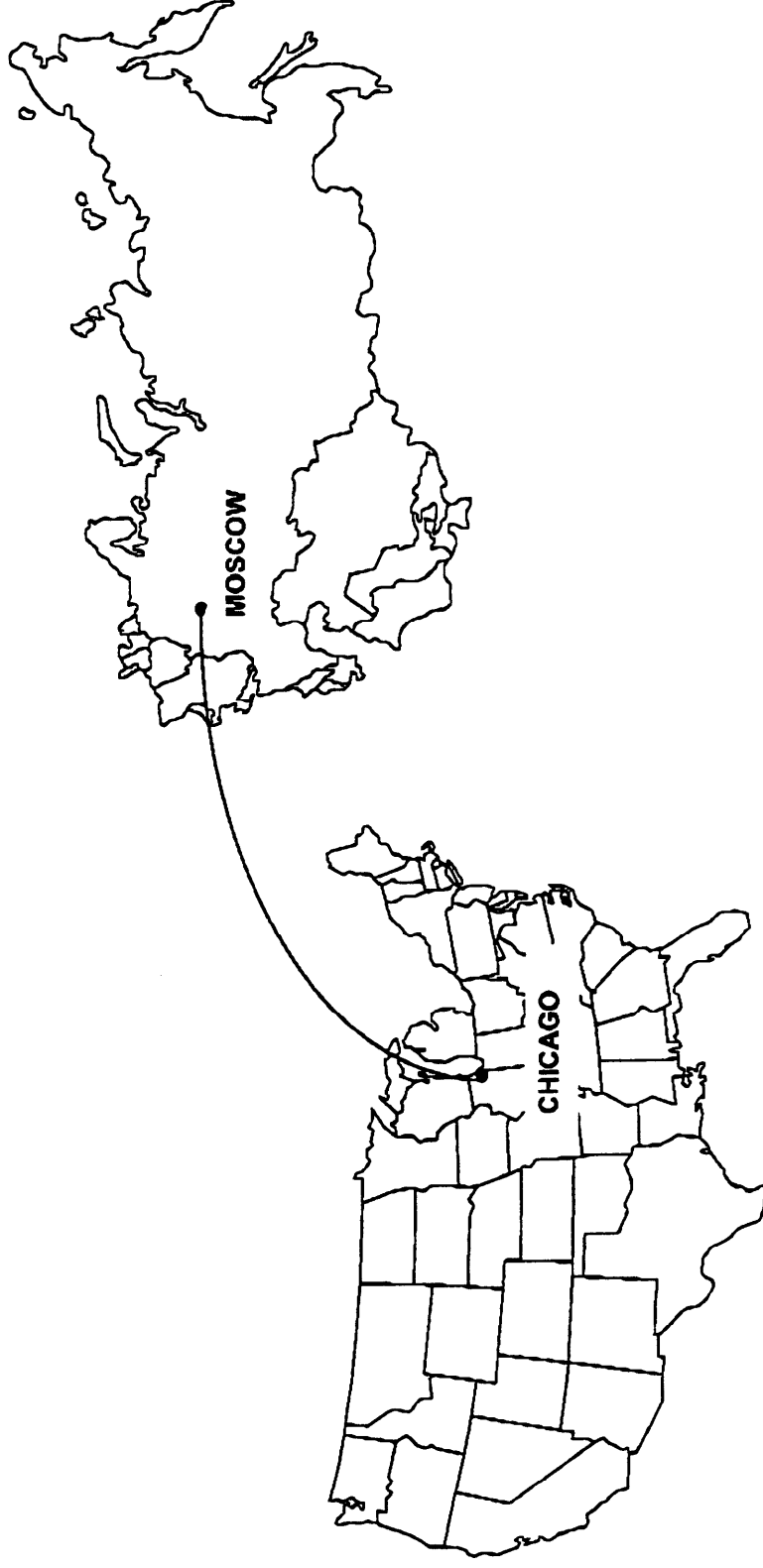
Respectfully submitted,

A handwritten signature in cursive script, reading "Carl B. Nelson, Jr.", written in dark ink. The signature is fluid and stylized, with a prominent "C" and "N".

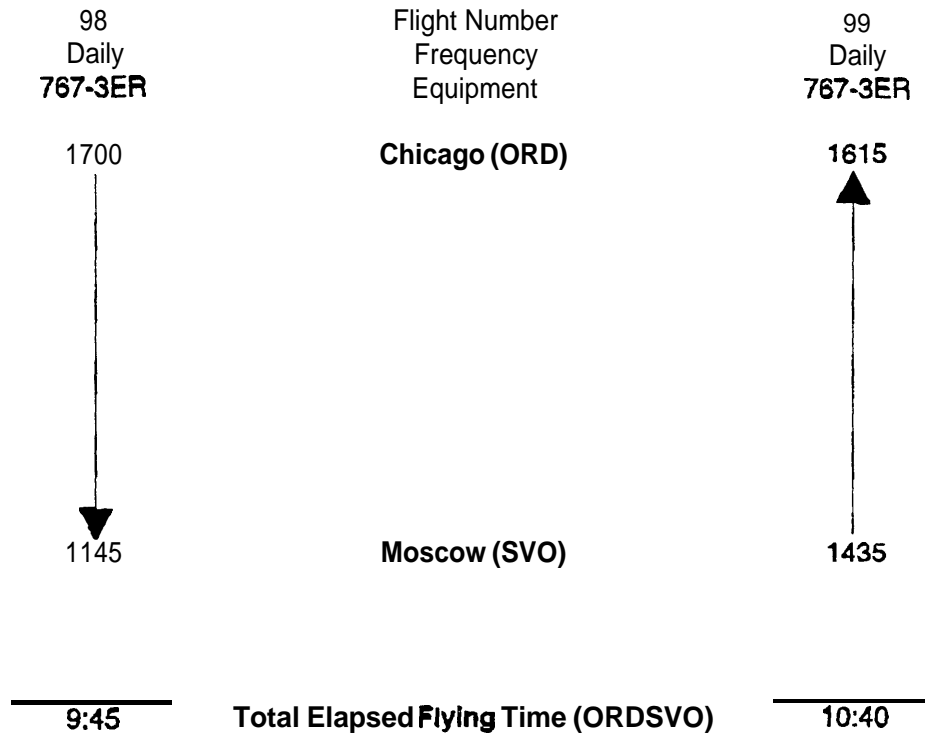
CARL B. NELSON, JR.
Associate General Counsel
American Airlines, Inc.

August 14, 1998

American's Proposed Chicago - Moscow Service



American's Proposed Chicago - Moscow Service



Note; Summer season flying times (DST).

Source: Company records.

American's Proposed Chicago - Moscow Service Annual Operating Statistics

Aircraft	B767-3ER
Departures	730
Segment Miles	4,975
Plane Miles	3,631,750
ASM's (000)	740,877
Ramp Hours	7,452
Fuel Burn (Gallons/Hour)	1,582
Annual Fuel Consumption (000)	11,789

Seats **B767-3ER**

First	14
Business	30
<u>Economy</u>	<u>163</u>
Total	207

includes crew rest seats, which vary with flying time.

Note: American will obtain fuel from current suppliers in Chicago and Moscow. American anticipates no difficulty in obtaining adequate supplies.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document by first-class mail on all persons named on the attached service list.


CARL B. NELSON, JR.

August 14, 1998

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